

FITCH RATES CARROLLTON, TX'S LTGOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-21 June 2013: Fitch Ratings has assigned an 'AAA' rating to the following Carrollton, Texas (the city) bonds:

--\$25.98 million limited tax general obligation (GO) improvement and refunding bonds, series 2013.

The bonds are scheduled for negotiated sale the week of July 22. Proceeds from the sale will be used to refund outstanding debt for interest savings and for street, traffic, and drainage improvements.

In addition, Fitch affirms the 'AAA' rating on approximately \$158.9 million in outstanding GO improvement bonds.

Fitch has also withdrawn its ratings for the following Carrollton (TX) bond due to prerefunding activity:

--GO improvement bonds series 2003 (certain maturities).

The updated rating history for the above maturities is now reflected on Fitch's web site at 'www.fitchratings.com'.

The Rating Outlook is Stable.

SECURITY

GO improvement bonds are secured by a limited ad valorem tax pledge of \$2.50 per \$100 taxable assessed valuation (TAV) levied against all property within the city.

KEY RATING DRIVERS

DIVERSE ECONOMY: The city's economic base is diverse, led by large manufacturing and distribution concerns and complemented by healthcare and technology. Carrollton's economic base also benefits from its location within the fundamentally strong Dallas-Fort Worth (DFW) metro economy.

GOOD SOCIOECONOMIC INDICATORS: Residents' income and educational attainment levels are above state and national norms and the area continues to register strong job and labor force growth.

SOUND FINANCIAL POSITION: City finances are well managed, characterized by the maintenance of solid financial reserves over a sustained period of time, ample liquidity, strong management practices, and adherence to prudent fiscal policies.

FAIRLY STABLE TAXING BASE: Assessed values of the city have been somewhat vulnerable to the recession but TAV recently resumed growth, providing stability in property tax revenues and debt affordability without pressuring tax rates.

MODERATELY HIGH DEBT BURDEN: Overall debt levels are considered above average by Fitch but debt is retired swiftly. Future capital needs are manageable but Fitch expects continued direct and overlapping debt issuance will keep debt ratios of the city elevated.

RATING SENSITIVITIES

The city's exemplary 'AAA' rating is most vulnerable to changes in its debt metrics and financial performance. The Stable Outlook reflects Fitch's opinion that such changes are unlikely.

CREDIT PROFILE

Carrollton is located northwest of Dallas along Interstate 35 East, in parts of Dallas, Denton, and Collin counties in the DFW metroplex. The estimated 2013 population is approximately 121,500, an 11% increase from 2000 census levels.

DALLAS SUBURB WITH STRONG SOCIOECONOMIC PROFILE

Carrollton is situated in a growing corridor in the DFW metroplex and is accessible by three major highways. The city is home to a number of manufacturing, distribution, and service concerns, and serves as the national or regional headquarters for several companies.

The city's labor force exhibits educational attainment above the national standard as measured by the proportion of residents possessing a four-year degree. Residents' income levels, as measured by per capita income, are about 23% above the state average and 13% above the national average. Full value per capita of the city is strong at \$91,000 but slightly below the median for 'AAA' peers.

Employment in Carrollton contracted during the recession but is now in its third consecutive year of growth. The 2012 employment count essentially equals the city's pre-recession peak in 2007. Year-over-year employment growth of 2.9%, which more than doubled the national rate of growth for the same period, produced a decline in the unemployment rate to 5.5% in April 2013.

SOLID TAX BASE; TRANSIT-ORIENTED DEVELOPMENT CONTINUING

The city's tax base comprises about one-half residential and one-fourth each commercial and industrial properties. Assessed values were not immune to the economic downturn and have contracted moderately since fiscal 2009; however, fiscal 2013 TAV rebounded significantly, climbing 13% on the strength of commercial and industrial values. Residential TAV still remains weak but home assessments appear to be improving. Zillow's April home value index shows a 5.5% year-over-year increase for the city. Management expects more modest 1%-2% TAV growth in fiscal 2014 based on preliminary figures provided by the appraisal district.

In addition, development around three Dallas Area Rapid Transit (DART) light-rail stations located within the city is continuing. Carrollton's multiple rail lines are expected to facilitate the city's transition to becoming one of three mass transit rail hubs in the DFW metroplex.

SOUND FINANCIAL PROFILE BUILT ON PRUDENT MANAGEMENT PRACTICES

Prudent financial policies, conservative budgeting practices, and a responsive management team who have made timely spending adjustments underpin the city's strong financial profile. Unrestricted/unreserved general fund balance has remained at or above 20% of spending for several years, despite revenue pressure stemming from the economic downturn and modest fund balance draw-downs reflecting pay-go contributions towards capital needs.

The city relies significantly on property and sales tax (approximately 40% and 30% of revenue, respectively) to fund operations, and both revenue streams demonstrated some weakness in fiscal years 2009-2011, resulting in lower total revenues. However, management reduced expenditures during this period through a combination of furlough days, layoffs, a pay freeze for non-civil service personnel, careful monitoring of hiring, and departmental efficiencies.

The city continued to appropriate general fund resources for pay-go capital spending; these allocations have averaged 6% of the budget in the last five fiscal years. Management budgets reserves in excess of its formal 60-day fund balance floor for one-time and/or capital initiatives.

POSITIVE RESULTS IN 2012; REVENUES REBOUNDING

Fiscal 2012 operating results yielded a \$1.8 million surplus after transfers (or 2.1% when tracked against \$82.5 million of general fund spending), which follows several years of nominal operating deficits. The unrestricted fund balance on an audited basis increased to \$18.3 million or 22.2% of spending.

Notably the city increased the level of transfers out for capital expenditures (by \$2.4 million or 50% from the prior year) while still generating the surplus. The increased transfer was supported by very strong performance of sales tax revenues, which increased 11.4% year-to-year, while operating expenditures (before capital transfers) remained essentially level with prior-year spending and at 95% of fiscal 2009 spending levels.

In recognition of the growth in sales tax revenues and the greater economic sensitivity of this revenue stream relative to other revenue sources, management formally capped the level of sales taxes that are permitted to be used for general fund purposes. This new policy requires sales tax revenues in excess of this cap to be transferred out of the general fund and used for non-recurring purposes. The fiscal 2013 base-year cap of \$23.25 million, to be adjusted annually for inflation, compares to audited receipts of \$24 million in fiscal 2012. Fitch views this as a prudent budgeting strategy.

OPERATING SURPLUS EXPECTED IN FISCAL 2013

Management crafted a fiscal 2013 budget assuming a 7% increase in the level of recurring general fund expenditures from last year's budget. The budget incorporates a 2% increase in full-time equivalents (FTEs), staff pay increases, higher health insurance costs, and stable pension contributions. The increased spending is supported by increased property tax revenues due to the TAV growth and slight shift of the tax debt service tax rate to operations, as well as sales tax growth. Management is currently projecting surplus general fund results, after transfers out for non-recurring purposes, as a result of solid revenue performance and under-spending relative to the budget.

MODERATELY HIGH DEBT BURDEN AND CARRYING COSTS

Fitch considers Carrollton's overall debt burden to be moderately above-average at 4.8% of full value and \$4,367 on a per capita basis. The overall debt load stems mainly from the large amount of debt from two local school districts. The city's annual debt carrying cost is also high at 19.4% of non-capital governmental fund expenditures, but this is due to the city's rapid pace of principal amortization (68% retired in 10 years), which Fitch views as a credit strength.

The city has \$26.9 million in remaining GO authorization, mostly to be used for streets and drainage to be issued through fiscal 2017. In addition, the city may seek additional debt authority from voters in a fall 2013 election. The remaining and proposed bonds will be structured to limit the peak debt service tax rate to a moderate \$0.23 per \$100 TAV, compared to the current rate of \$0.21, reasonably assuming 1% TAV growth each year through the life of the bonds. The city also plans to use \$1.3 million of its \$5.3 million debt service fund balance through fiscal 2019 to maintain this level tax rate.

PENSION/OPEB LIABILITIES NOT A CREDIT PRESSURE

The city contributes to the Texas Municipal Retirement System (TMRS), an agent multiple-employer plan. The city's actuarially determined contribution to the plan consumed 6.4% of governmental expenditures (less capital projects fund expenditures). Recent structural and actuarial changes to TMRS have continued to benefit the city's funded position, which now stands at 93.3% as of the Dec. 31 2011 actuarial valuation compared to 73.2% as of Dec. 31 2009 (using a 7% investment return for both years).

The cost of other post-employment benefits (OPEB) was a nominal 0.5% of fiscal 2012 non-capital spending, and Fitch views positively management's actions to reduce its long-term OPEB cost by

closing its OPEB in fiscal 2009. Only existing employees meeting the age/years of service requirement were allowed to remain in the city-subsidized retiree health plan.

Combined debt, pension, and OPEB costs comprised an elevated 26% of fiscal 2012 non-capital governmental expenditures, but this fixed cost is not expected to further pressure the budget given a modestly descending debt service schedule, a reduction/stabilization in the pension contribution rate, and the closed OPEB plan.

Contact:

Primary Analyst
Blake Roberts
Associate Director
+1-512-215-3741
Fitch Ratings, Inc.
111 Congress Ave, Suite 2010
Austin, TX 78701

Secondary Analyst Gabriela Gutierrez Director +1-512-215-3731

Committee Chairperson Michael Rinaldi Senior Director +1-212-908-0833

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

- -- 'Tax-Supported Rating Criteria' (Aug. 14, 2012);
- --'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report frame.cfm?rpt id=685314

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO

THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.